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Poland

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The October 23-24 Paris Club meeting between Poland and Western government creditors produced little progress toward a rescheduling agreement. Warsaw demanded 100 percent rescheduling over 14 years with a 7-year grace period of principal and interest due in 1982-1985, including payments under the 1981 rescheduling agreement. The Poles also asked to pay only 40 percent of the interest that would come due in 1985 under a new rescheduling agreement, 60 percent in 1986, 80 percent in 1987, and that the remainder be capitalized. In 1988 and thereafter all interest would be paid. Concerning arrears from the 1981 agreement, Warsaw proposed that 30 percent of the moratorium interest due in 1982-1983 be paid as previously agreed but that 50 percent of the 1982-1983 payment and 100 percent of the 1984 moratorium payment be capitalized. The 1981 agreement would be serviced fully in 1985 and thereafter.

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Paris Club [ ] countered with an offer to reschedule 95 percent of principal and interest due in 1982-1984 over 5 years with a 4-year grace period beginning January 1, 1984. The remaining 5 percent would be paid in 1985. Overdue interest on the 1981 agreement would be paid according to the agreement reached earlier this year which specifies that 30 percent be paid when the multilateral agreement is signed and 50 percent when

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[redacted]

bilateral agreements are concluded. Warsaw already had to pay 20 percent as a precondition for resuming negotiations. The creditors also asked that rescheduled sums be subject to interest at market rates and that all creditors be treated equally. The Paris Club again rebuffed the Poles' request for new credits. Although the Polish delegation expressed displeasure with the Paris Club offer, they privately hinted that some flexibility in their demands was possible at the next meeting scheduled for the week of November 26. [redacted]

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During recent joint economic talks, West German officials implied to the Poles that Bonn supports generous terms for rescheduling Poland's debts at the Paris Club and favors Polish membership in the International Monetary Fund [redacted]

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[redacted] the West German government probably would not approve new official credits for Warsaw, but [redacted] the two countries have agreed to reopen early next year a joint economic commission that has not met for more than five years. Bonn, however, does not seem willing at the present time to take the lead in pushing IMF membership or generous rescheduling terms for Poland. [redacted]

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[redacted] Warsaw has overcome internal opposition to IMF membership and is considering a direct approach to the Fund about reviving its application. [redacted] however, [redacted] the Polish government does not have a full appreciation of the implications of IMF conditionality, particularly reform of the financial sector where many changes

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are needed. This could lead to a stalemate in membership negotiations which would damage further Poland's attempts to improve its image and creditworthiness with the banking community.

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Yugoslavia

The US Embassy in Belgrade reports that Yugoslav officials meeting with embassy representatives of 17 Western governments in late October requested a multiyear rescheduling of debt maturing in 1985-88, the same proposal they presented to commercial bank creditors in September. Belgrade requested a 10-12 year rescheduling period with 5-6 years grace and lower interest rates than those contained in previous packages. The Yugoslavs also indicated that they wanted to avoid a new IMF standby program, hoping that an IMF consultative role would placate creditors. The governments, however, insisted that negotiations on a new IMF program be initiated before meeting with the Yugoslavs later this month. [REDACTED]

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Belgrade has begun to soften its stand according to embassy and press reporting. Minister of Finance Klemencic insisted that Yugoslavia's request for a multiyear rescheduling is not negotiable, but it may make concessions on other points. Yugoslavia apparently is moving towards acceptance of IMF standby agreements for 1985 and 1986, as well as continuing Fund involvement during the balance of the period for which Belgrade is seeking to reschedule its debt. But Yugoslav officials stated that they would concede no need for standby agreements after 1986 as long as Yugoslavia continues to achieve balance of payments surpluses. Belgrade also has expressed willingness to modify earlier demands that previously rescheduled 1983-84 maturities be refinanced in a new agreement. [REDACTED]

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Some commercial creditors believe that a modified multiyear rescheduling of Yugoslavia's private debt will be approved, but members of the ICC (International Coordinating Committee) representing Yugoslavia's commercial creditors are virtually unanimous in their refusal of a Yugoslav request to repay only 10 percent of the principal maturing in 1985. They are also opposed to the inclusion of any new credits, and many prefer a series of annual rescheduling arrangements--both to ensure Yugoslav compliance with its IMF program and to ensure comparability of treatment of Western creditor banks and governments. Although Belgrade has shown some new flexibility and stated its intention to conclude an agreement before the end of the year, unresolved issues may make timely conclusion of a rescheduling agreement difficult.

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East Germany

The East German foreign trade bank has asked the Luxembourg subsidiary of West Germany's Deutsche Bank to arrange a consortium for a 6-year credit of \$150 million to be signed before the end of the year, according to press reports. The group is to contain wide international participation, and West German banks are to provide only a small share of the loan. The West German government apparently is not involved in the negotiations and will not guarantee the loan. [REDACTED]

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[REDACTED] such a credit request would be viewed favorably by Western banks. We expect the deal to be concluded on terms favorable to East Berlin. [REDACTED]

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